



Application Serial No.: 09/661,271
Attorney Docket No. 10304-003-999

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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Application of: WARD et al.

Confirmation No.: 8302

Application No.: 09/661,271

Group Art Unit: 3625

Filed: September 13, 2000

Examiner: Jeffrey A. Smith

For: SYSTEM AND METHOD FOR
ORIGINATING LOANS

Attorney Docket No.: 10304-003-999

DECLARATION UNDER 37 CFR 1.31

We, Perry Ward, Joseph Heil and Frank Scavone, declare and state that:

1. We are the inventors of the above-identified patent application.
2. We conceived in the United States the invention described in the above-identified application prior to December 20, 1999 as evidenced by the attached excerpts from the Precept LLC Company Overview dated December 13, 1999 and a Task List that was prepared prior to December 20, 1999.
3. The Precept LLC Company Overview was distributed to prospective investors in connection with Precept's second round of financing in December 1999.
4. The Task List details work to be done in implementing the system that is the subject of the present application. The Task List enumerates specific tasks followed by the initials of the individual or individuals responsible for completion of the task. The initials JH and FS are the initials of Joseph Heil and Frank Scavone.
5. Both the four page section entitled Precept Process Overview and Article I, pages 1-4 in the Precept LLC Company Overview provide a summary of the Precept loan auction program and a description of the present invention.
6. With reference to the first paragraph of claim 1, the first paragraph of Article I states that the "underwriting process involves the gathering, analyzing and summarizing of information relating to the cash flow of each Property." The borrower has the option to select any one of the three levels of underwriting as detailed in sections (b)(i), (ii) and (iii) on pages 2 and 3.
7. Upon completion of the underwriting phase, the borrower can proceed to the auction phase. With reference to the second paragraph of claim 1, in the auction phase, as

stated in section (d)(i) of Article I, Precept will post "the terms of the financing requested by the Borrower and the underwriting information . . . for review by Registered Lenders."

8. With reference to the third paragraph of claim 1, Precept will then conduct an Auction as stated in section (d)(iv) of Article I.

9. Finally, with reference to the last paragraph of claim 1, the borrower has the opportunity to accept a Bid as stated in section (d)(vi) of Article I.

10. Many of the tasks required for implementation of the underwriting phase of the invention are specified in the Task List. In addition, at least items 36, 38 and 39 at the bottom of page 2 and the top of page 3 relate to the auction phase.

11. As indicated by the entries in the Task List, efforts to implement the Precept loan auction program were well underway by December 20, 1999. They continued through 2000 until the program was operational.

12. In addition to these implementation efforts, Pennie & Edmonds LLP was engaged in 2000 to prepare the present patent application which was filed on September 13, 2000.

We declare further that all of the statements herein of our own knowledge are true; and all statements made on knowledge and belief are believed true, and further that these statements are made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under section 1001 of Title 18 of the United States Code, and that such willful false statements may jeopardize the validity of the present application and any patent issuing thereon.

Date: _____
Perry Ward

Date: _____
Joseph Heil

Date: 9/11/04 _____
Frank Scavone

stated in section (d)(i) of Article I, Precept will post "the terms of the financing requested by the Borrower and the underwriting information . . . for review by Registered Lenders."

8. With reference to the third paragraph of claim 1, Precept will then conduct an Auction as stated in section (d)(iv) of Article I.

9. Finally, with reference to the last paragraph of claim 1, the borrower has the opportunity to accept a Bid as stated in section (d)(vi) of Article I.

10. Many of the tasks required for implementation of the underwriting phase of the invention are specified in the Task List. In addition, at least items 36, 38 and 39 at the bottom of page 2 and the top of page 3 relate to the auction phase.

11. As indicated by the entries in the Task List, efforts to implement the Precept loan auction program were well underway by December 20, 1999. They continued through 2000 until the program was operational.

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Date:

9/15/2004


Perry Ward

Date:

Joseph Heil

Date:

Frank Scavone

Precept LLC

Company Overview

December 13, 1999

**This Information is the subject of a Confidentiality
Agreement between Precept LLC and
dated**

Business Overview

Mission Statement: Precept LLC ("Precept") is an Internet based commercial mortgage loan origination and trading system that provides the lowest cost, most efficient loan delivery system for commercial real estate borrowers, brokers, and lenders. Combining the industry's most advanced underwriting standards, a commitment to underwriting excellence, and a "sophisticated user" oriented Web site, Precept will emerge as the industry's premier source for commercial mortgage financing. With its seasoned underwriting staff and experienced management team, Precept will become an enduring financial markets institution dedicated to superior customer service. Precept will provide participants a unique competitive advantage in obtaining and providing commercial real estate debt.

The Concept: We built Precept to advance the commercial mortgage industry. By systematically applying industry-accepted underwriting standards to commercial lending practices, Precept transforms yesterday's uncertain and inconsistent process into today's optimal combination of diligence, reliability and performance. Add an Internet based delivery channel, and access to a wide range of qualified borrowers and lenders, and you get the *best* results *faster* through a new commercial lending experience that benefits everyone.

Precept—Advancing Commercial Mortgage Finance.

This business plan relies on the basic premise that the competitive pressures of a maturing marketplace will drive real estate borrowers to optimize their search for the most competitive sources of capital and drive lenders to lower the costs of loan origination and increase capacity for high velocity loan aggregation and possible disposition.

Lender Value Proposition

- Source of qualified and committed borrowers
- High quality and comprehensive due diligence
- Methodical underwriting in accordance with Rating Agency and industry-accepted guidelines
- Prompt delivery of pertinent information via the Internet

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- Greater profitability through significant cost savings
 - Enhanced competitive position for lenders

Borrower Value Proposition

- Wider distribution
- Intense competition
- Best market rates and terms available
- Greater assurance of firm pricing and terms offered
- Reduced borrowing cost
- Expedient transactions
- Eliminates dependence on any one specific lender

Mortgage Broker Value Proposition

- Wider search capabilities
- Elimination of repetitive deal underwriting and packaging efforts
- Increased profitability through preferential pricing
- Interactive online status reports
- Current and comprehensive market information
- Ability to provide better client service

Why Invest in Precept: The primary reason that Precept will be successful in developing the commercial real estate loan origination solution is the people behind it. Every member of the Precept team is a seasoned professional and considered by industry participants to be among the finest in their specific field. This team has a proven track record of working successfully together as evidenced by the historical market dominance of Capital America/Nomura. Furthermore, Precept has partnered with Secured Capital Corporation to develop the concept. Secured Capital is a significant force in the real estate investment banking business. Since the formation of Secured Capital in 1990, the firm has completed over \$27 billion in real estate

transactions and capital raises. Secured Capital is the leading intermediary in the trading and placement of commercial and multifamily whole loans. Secured Capital has completed \$14.5 billion of commercial, hospitality and multifamily mortgage whole loan sales, having sold more commercial mortgage whole loans than any other firm since 1990. The combination of Capital America/Nomura's experience and expertise with Secured Capital's marketing capabilities makes Precept a very well armed competitive presence in this marketplace. Additionally, the company is well positioned to attract meaningful strategic alliances.

The second reason to invest in Precept is the business model. The premise behind the Precept platform is to dominate the market by setting the standard for the industry and by driving all benefits and efficiencies to the participants. As a result the Precept system is an information rich, complex, business-to-business application, requiring a certain level of industry sophistication. Additionally, the system is designed with the flexibility to accommodate the needs of all types of commercial mortgage lenders.

The final reason to invest in Precept is sponsorship. The current investors in Precept are savvy industry participants who selected Precept as the company to back. Each of these investors is strategic in nature, providing an array of benefits such as guidance, access to industry participants and customers.

Secured Capital Corporation - Secured Capital holds a cash investment and "sweat equity" position in Precept. Responsibilities include the ongoing development and management of a sophisticated marketing program designed to bring Precept high-level exposure within the real estate marketplace. As a leader in the real estate capital markets and through their strong relationships on Wall Street, Secured Capital has access to key decision makers in the industry. Secured Capital will assist in promotional presentations and conferences. Utilizing its extensive network of investors and borrowers, Secured Capital will also seek to direct its clientele to Precept as an advantageous new medium for obtaining commercial financing.

Morgan Stanley Dean Witter - Morgan Stanley Dean Witter has agreed to participate as an investor and will be included in the following activities: 1) assisting in the refinement of various components of the Precept processes, 2) provide Precept with access to certain commercial mortgage research materials, 3) support Precept in recruiting additional lenders to the program and creating future strategic alliances, and 4) act as a Market Maker for a broad set of property types.

Michael Klein - Michael Klein is the primary founding investor in Precept. Mr. Klein is the Chairman of the Board of Directors of CoStar Group, Inc. a publicly held corporation (NASDAQ) that is the nation's largest provider of information and related digital data services to the commercial real estate industry.

Rating Agencies - Precept will enter into a long-term relationship with at least one Rating Agency whereby the Rating Agency will perform the property site inspection and confirm Underwritten Net Cash Flow prior to the auction. This Net Cash Flow will be subject only to remaining post-auction due diligence and will be reconfirmed upon the completion of such. This

Precept Process Overview

I – Applicant Engagement

1. Applicant or Applicant representative initially contacts Precept Exchange Representative through our website or 1-800 number.
2. The Exchange Representative track all contacts with Applicant. Any outstanding issues, concerns, referrals and questions are noted. Follow-up calls are made by Exchange Representatives to callers who did not immediately elect to participate.
3. Exchange Representative briefly discusses our program with the Applicant and determines whether our current product coverage can meet the Applicant's financing requirements. If not, the Applicant is referred to an appropriate firm with which we have a mutual referral relationship.
4. The Exchange Representative explains the merits of the Precept program to the Applicant:
 - a. Certainty (i.e. reduced re-trading by lenders): accurate desktop underwriting and due diligence before pricing, capability for complete industry accepted underwriting before bidding (third party reports, site inspection) and re-trading matrix to handle exceptions.
 - b. Efficiency: Streamlined underwriting, pricing and closing process. Accentuate ability to reuse same information to return into action process.
 - c. Best pricing: Loan auctioned among many lenders. Off-market bidding possible during initial closed auction while the open auction encourages vigorous competition.
 - d. Who we are: Senior management at the largest lender in 1990's.
5. The Exchange Representative explains the entire Precept process: underwriting, auction and closing. The various fees, expenses and time frames involved are described. The Exchange Representative answers all basic questions, referring more complex questions to other Precept staff. The Applicant is directed to the website for sample documents, definitions of terms (glossary), FAQ, approved third parties, site map, etc.
6. The Exchange Representative discusses current lending market conditions and gives indicative pricing and terms for the potential financing.
7. The Exchange Representative gets basic deal identification information from the Applicant, registers the deal and checks for conflicts (ex. sponsor name and address, property address, etc.).
8. If the Exchange Representative determines that the Applicant is likely to signup, the Applicant is introduced to a Precept Underwriter (seniority to be determined).
9. The Exchange Representative and Senior Underwriter discuss with the Applicant the different levels of underwriting possible. The Applicant is encouraged to do a more complete underwriting to reduce uncertainty and accelerate the process. Underwriting level choices are as follows:
 - a. Minimum – Cash flow underwriting based on historical income statements, rent rolls, revenue and expense source documents (bank statements, tax returns, utility bills, management and service agreements and leases), primary and secondary

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- market research, property photos, preliminary Applicant credit analysis and Applicant certifications.
- b. Appraisal – Minimum plus appraisal or other 3rd party report (perhaps previously existing and wrapped).
 - c. Complete – Minimum plus all 3rd party reports (appraisal, environmental and engineering).
10. The Exchange Representative and Senior Underwriter help the Applicant complete the Underwriting and Posting Agreement (“UPA”). The Applicant executes the UPA and the Underwriting Fee and Third Party Report Deposits (if applicable) are collected.
 11. The Due Diligence Coordinator forwards the fees and deposits to accounting and forwards the Applicant a “hello” package that 1) welcomes the Applicant into the system, 2) provides the Applicant’s access password, 3) includes a process outline and instructions, 4) contains hard copies of all applicable forms, certifications and checklists and 5) Pre-addressed, labeled loan file kit.

II – Pre-Bid Underwriting

1. The Due Diligence Coordinator collects, logs and checks for completeness all applicable items outlined in the Pre-Bid section of the Underwriting Due Diligence Checklist (see Exhibit A)
2. A Loan Underwriting File is created and the Senior Underwriter is notified that he should commence due diligence.
3. The Due Diligence Coordinator will order any third party reports authorized by the UPA (appraisal, engineering, environmental), preliminary credit check, and crime reports (if applicable).
4. The Due Diligence Coordinator will generate a preliminary schedule that identifies the timing of deliverables and estimated completion dates for major tasks (this schedule would be predicated on the assumption that all items delivered by the Applicant and third party report providers would be received in a timely manner).
5. The Senior Underwriter oversees his underwriting team in completing the economic underwriting, portions of which are performed directly in the Precept database system (see Underwriting Team Organization Chart – Exhibit B).
6. Once the economic underwriting is completed and summarized in the Precept database system, the Senior Underwriter will review the underwriting information with the Applicant for verification and confirmation.

III – Auction

1. The Precept Senior Underwriter and Precept Auction Manager work with the Applicant to complete the auction schedule, due diligence contingencies and bid requirements, preferences and requested variations. Precept Auction Manager ensures that the loan request parameters are consistent with current market conditions and conventions. Applicant signs Posting Notice.
2. The auction begins when Precept posts details of the Applicant’s loan request and the underwriting/due diligence information online. Lenders are notified by email of new

postings. The auction is divided into the following 4 phases, although ends whenever the Applicant selects a single winner:

- a. Phase 1...Bidder Due Diligence Review and Sealed Bid Submission Period: This phase takes place in most cases over 7 business days (longer for complex assets). During this phase lenders review underwriting information, download models, ask questions about the underwriting and submit a sealed bid if they choose.
 - Lenders must submit questions prior to the final 2 days of this phase of the auction to allow Precept enough time to answer the questions and give all lenders a day to review the answers. The due diligence period can be extended if Precept requires more time to answer questions.
 - Sealed bids may be submitted at any time during this phase of the auction.
 - Bids may be cancelled or modified at any time during the bidding period.
 - The Applicant may select a winning bid or reject a bid at any time.
 - Details of any submitted sealed bid are available to the Applicant and submitting lender, but are not available to other lenders.
 - b. Phase 2...Sealed Bid Evaluation Period: If the Applicant has not selected a winning bid, a 1 business day evaluation period is provided to review active bids.
 - Bids cannot be canceled or modified during this period.
 - c. Phase 3...Open Bid Period: During the next 2 business days Lenders can see each other's bids.
 - Bids may be cancelled or modified at any time during the bidding period.
 - d. Phase 4...Final Bid Evaluation Period: All outstanding bids at the end of the "Open phase" are good for another [24] hours.
3. When the Applicant selects a winner, a Commitment Letter is generated from the winner's bid inputs. Selections (contractually binding) are made electronically with follow up confirmations of the Commitment sent to both the Lender and Applicant to be signed. The Closing Coordinator collects the remaining required third party report deposit and the commitment fee and forwards both to accounting.
 4. If the Applicant does not select a winner, the Precept Auction Manager tries to determine why the auction failed. The Applicant may be offered another auction possibly with the additional underwriting or posting conditions. If no additional auction is scheduled, the Post-Bid Due Diligence fee is returned (less Precept costs) and all underwriting materials are sent to whomever the Applicant directs.
 5. Precept Auction Manager continually monitors auction for operating problems or violations of auction rules.

IV – Completion of Post-Bid Origination Activities

1. Closing Coordinator assists Bidder in engaging law firm based on Precept approved counsel list to close the loan and in ordering title and survey.
2. Law firm prepares and distributes Precept standard documents and Legal Closing Checklist (Exhibit C) to the Applicant's counsel and commences closing process.
3. Due Diligence Coordinator engages appraisal, engineering, environmental, PML and special hazard report providers (to the extent not previously engaged).
4. Due Diligence Coordinator collects all applicable items outlined in the Post-Bid section of the Underwriting Due Diligence Checklist (see Exhibit A).

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5. Closing Coordinator orders appropriate physical record searches.
 6. Due Diligence Team updates and finalizes underwriting and summaries (i.e. engineering page, environmental page, etc.) based on data from third party reports and creates holdback and remediation plans for environmental, engineering and special hazard matters that cannot be resolved prior to closing. Final credit information is also summarized into system.
 7. Senior Underwriter and Closer work together to identify underwriting issues/exceptions.
 8. Senior Underwriter and Closer notify Applicant and bidder of modifications and to coordinate negotiation/resolution.
 9. Bidder has 3 days to review final underwriting information and confirm **"Underwriting Clearance"**.
 10. Applicant's Counsel and Bidder's Counsel negotiate final form of loan documents.
 11. Closing Coordinator confirms that all checklist items have been delivered and are satisfactory to Bidder and that all that issues have been resolved.
 12. Due Diligence Coordinator delivers final Underwriting File (contents outlined on Exhibit A) to Bidder. Bidder has 3 days to review file contents and reconcile information from source documents to Precept "Posted" data.
 13. Bidder confirms **"Closing Clearance"**.
 14. Closing Coordinator prepares and distributes Settlement Statement to all parties for review and approval.
 15. Bidder's Counsel reviews Legal Closing Checklist issues/exceptions with Bidder and obtains **"Legal Clearance"**.

V – Loan Document Delivery and Funding Mechanic

1. Bidder and Applicant's Counsel deliver executed Loan Documents into escrow with Title Company.
2. Title Company distributes execution copies to Applicant, Lender.
3. Lender funds into escrow with the Title Company on day of closing.
4. The Title Company releases funds upon confirmation by Title Company that it is in receipt of (i) all executed documents, (ii) closing proceeds and (iii) everything it needs to close the transaction and issue the title policy.
5. Title Company records applicable documents and files UCC statements.
6. Applicant and Lender asked to provide feedback regarding process

ARTICLE I - INTRODUCTION

THE UNDERWRITING PROCESS

This Underwriting Manual describes the process by which Precept will complete the underwriting of each Loan (defined below). Precept's underwriting process involves the gathering, analyzing and summarizing of information relating to the cash flow of each Property (defined below) as well as the gathering and summarizing of information pertaining to the physical characteristics of each Property, the credit of a Borrower (defined below), and other matters such as the qualifications of each property manager and leasing agent and the purpose of the Loan. As set forth in Due Diligence Level One (defined below), for each Property that is the subject of a Loan, Precept will complete a cash flow analysis. Depending on the due diligence level selected by a Borrower, either prior to an Auction (defined below) or after the execution of a Commitment Letter (defined below), the cash flow analysis will be adjusted by Precept to reflect the results of each Third Party Report (defined below).

Throughout the underwriting process, Precept will use its Web Site (defined below) to convey and update information regarding the Loan, a Borrower, the Properties and underwriting. This Underwriting Manual summarized the various places on the Web Site Precept will post relevant underwriting information.

The underwriting information regarding a proposed Loan will be available for review by a Borrower on the Web Site throughout the Underwriting Phase (defined below) and Auction and will also be available to Registered Lenders (defined below) during the Auction. If a Bid (defined below) is accepted by a Borrower, then only a Borrower and a Winning Registered Lender (defined below) will be able to review such underwriting information as it is updated and revised by Precept. Precept will place all of the materials compiled in connection with the underwriting process in the deal "Underwriting File". All information in the Underwriting File will be made part of the Loan file delivered to the Winning Registered Lender following execution of the Commitment Letter or, if no Bid is accepted by a Borrower, the underwriting files will be given to a Borrower.

The Precept underwriting process is designed to provide Borrowers with a friendly and efficient loan application process and Registered Lenders with a comprehensive underwriting package. In order to ensure the achievement of these goals, this Underwriting Manual will be amended as necessary to adapt the Precept Program to the needs of Precept's Borrowers and Registered Lenders.

AN OVERVIEW OF THE PRECEPT PROGRAM

In the Precept loan auction program, (the "Precept Program"), Precept will receive the terms by which potential borrowers (each, a "Borrower") desire to enter into financings (each, a "Loan"). The Precept Program generally consists of three phases, the Underwriting Phase, the Auction and the Closing Phase, each of which is discussed more thoroughly in this Underwriting Manual (the "Underwriting Manual"). During the Underwriting Phase, Precept will underwrite each property (each, a "Property") that will be the subject of each Loan. During the Auction, the results of the underwriting, at the option of a Borrower, will be presented to lenders ("Registered

Lenders") for their review. If a Registered Lender reviews the underwriting materials and wants to enter into a financing with a Borrower it will submit proposed loan terms (each, a "Bid") to such Borrower. The Borrower can then select a Bid from those submitted. If a Bid is accepted by a Borrower, a winning Registered Lender (a "Winning Registered Lender") and Borrower will execute a commitment letter (the "Commitment Letter"). During the Closing Phase, Precept will assist the Winning Registered Lender in closing the Loan. Precept Loans may be secured by various types of Property, including multifamily, office, industrial, retail and hotel. A typical Loan is generally closed within four weeks from the date a Borrower and a Registered Lender execute a Commitment Letter.

Each Loan in the Precept Program is processed by Precept as follows:

(a) The Financing Registration Form.

Typically, a Borrower or a mortgage loan broker, acting on a Borrower's behalf, submits to Precept a "Financing Registration Form" which sets forth (among other things) contact person information and certain background information describing the amount and type of financing requested.

(b) Underwriting and Auction Agreement.

After a Borrower has submitted the Financing Registration Form, a Borrower executes Precept's form of Underwriting and Auction Agreement. As part of the Underwriting and Auction Agreement, each Borrower selects the level of due diligence it wants Precept to complete prior to an Auction. There are three levels of due diligence:

(i) Due Diligence Level One - Basic

Cash Flow Analysis: Due Diligence Level One involves a basic cash flow analysis based on property level historical operating data and reconciliation of such data to (1) source documents submitted to Precept, (2) "market" information obtained by Precept, and (3) industry operating ratios as determined relevant by Precept. In Due Diligence Level One, appraisal, environmental and engineering reports (the "Third Party Reports") are not ordered. Due Diligence Level One assumes that Third Party Reports will be ordered after a Commitment Letter is executed and underwriting cash flows will be adjusted accordingly by Precept and, in turn, the Winning Registered Lender, if they so desire, following their post-Commitment Letter due diligence review.

(ii) Due Diligence Level Two - Basic

Cash Flow Analysis with Appraisal Report: Due Diligence Level Two involves the same basic cash flow analysis performed in a Due Diligence Level One review, which Precept the adjusts to reflect the results of an appraisal report. The appraisal report will be commissioned by and prepared for Precept and any Winning Registered Lender. Due Diligence Level Two assumes that the environmental and engineering reports will be ordered after a Loan Commitment is executed and underwriting cash flows will be adjusted accordingly by Precept and, in turn, the Winning Registered Lender defined below, if they so desire, following their post-Commitment Letter due diligence review.

(iii) Due Diligence Level Three -

Complete Cash Flow Analysis: Due Diligence Level Three consists of the same basic cash flow analysis performed in Due Diligence Level One, adjusted by Precept to reflect the results of the appraisal report (as described in Due Diligence Level Two) as well as an environmental and an engineering report and all other property level reports commissioned by and prepared for Precept and any Winning Registered Lender. Up-front reserves for curing structural or environmental issues will be recommended by Precept and will be based on the engineering and environmental reports as analyzed by Precept.

At any time during the Underwriting Phase, a Borrower may upgrade the selected underwriting due diligence level by delivering an "Upgrade Request".

(c) The Underwriting Phase. Once Precept receives the Underwriting and Auction Agreement, Precept will begin the process of underwriting the Property. The underwriting will be completed in accordance with this Underwriting Manual.

(d) The Auction. Following completion of the Underwriting Phase, a Borrower will have the option of proceeding to the auction (the "Auction"). If a Borrower elects to proceed to the Auction, a Borrower must deliver to Precept an "Auction Request" within seven (7) days of the date on which Precept notifies a Borrower that the completion of the Underwriting Phase. If a Borrower fails to so notify Precept, Precept's obligations under the Underwriting and Auction Agreement will terminate. During the Auction Phase:

(i) Precept will "post" on Precept's internet web site located at www.preceptmortgage.com (the "Web Site") the terms of the financing requested by a Borrower and the underwriting information, including property level cash flow, credit related information pertaining to a Borrower and certain of its affiliates, certain other underwriting information collected by Precept from a Borrower, and, to the extent available, the Third Party Reports (collectively, the "Underwriting Materials") for review by Registered Lenders;

(ii) Precept will answer any questions of the Registered Lenders in an effort to facilitate the submission of Bids pursuant to which they would be willing to enter into a Loan;

(iii) Precept will provide a Borrower with access to the Web Site for the purposes of reviewing the posted information and Registered Lenders' Bids, submitting questions to Precept, monitoring the Auction and selecting a winning Bid;

(iv) Precept will conduct an Auction in accordance with the Precept auction rules (the "Auction Rules");

(v) Precept will answer questions from a Borrower in accordance with the Auction Rules; and

(vi) Precept will, in the event that a Borrower accepts a Bid from a Registered Lender, assist the Winning Registered Lender in the closing of the Loan.

(e) Winning Registered Lenders. Within two (2) business days after a Bid is selected by a Borrower, a Borrower is obligated (pursuant to the Underwriting and Auction Agreement) to enter into a Loan Commitment with the Winning Registered Lender. Outside counsel ("Outside Counsel") will then be engaged by Winning Registered Lender. Thereafter, Precept will work with the Winning Registered Lender and Outside Counsel to close the Loan. Outside Counsel will be instructed to ensure that it does not destroy the attorney-client privilege with the Winning Registered Lender by its discussions with Precept.

(f) Closing Phase. During the Closing Phase, the Winning Registered Lender will review all Third Party Reports, the underwriting will be completed, the legal review be performed by Outside Counsel to the satisfaction of Winning Registered Lender, and the conditions set forth in the Loan Commitment must be satisfied. Upon the completion of the foregoing matters, the Loan will be funded by Winning Registered Lender.

TASK LIST

CMEX

Task Leader	Task	Estimated Completion Date
FS	Hello letter for underwriting package [JH, FS]	10/30/99
FS	Hello letter for closing package [JH, FS]	10/30/99
CC	Mockup for underwriting & closing package [FS]	10/30/99
CC	Third party & due diligence sections of the model for a commercial property	Complete
CC	Third party & due diligence sections of the model for a hotel & apartment building [CC, CT]	10/30/99
CC	Coordinate the process of collecting data from vendors with CMEX Template Inputs Forms [JH & CC]	10/22/99
cc	7. Write simplified sales summaries of underwriting process, auction process, closing process & borrower's obligations & outs for inclusion in "Hello" package. [FS, JH, CC]	10/30/99
cc	8. Create initial version of FAQ. Establish FAQ addition procedure. [FS, CC]	10/30/99
cc	10. Develop appraisal, environmental, engineering and special hazard engagement agreements and scopes of work, "set-up packages, formats and technology to up-load needed fields from reports [FS, JH]	9/30/99
cc	12. Develop cost schedule for third party services [FS, CC]	10/15/99
cc	19. Create property type specific Underwriting Due Diligence Checklists [CT, CC, FS]	Complete
cc	24. Design of all data collection forms from the Borrowers & their representatives [FS, CC] (includes items i.e. 25, 26, 27, 28, 29)	9/30/99
cc	30. Design example Utility service letters [FS, CT, CC]	9/30/99
cc	31. Design capital expenditure schedule example [FS, CT, CC]	Complete
cc	32. Design historical lease-up cost schedule [FS, CT, CC]	Complete
cc	33. Design instructions for outlining Ownership Structure [FS, CT, CC, JH]	9/30/99
ct	2. Define our exact current product coverage (i.e. standard current cash flow loans). [FS, CT, SW]	Complete
ct	18. Develop underwriting database structure: tables, fields and lookup references. [CT, CC, SW, NJ, DM]	9/30/99
ct	20. Develop the Underwriting Due Diligence Glossary and review definitions with Rating Agencies [CT, CC, FS, JH]	10/15/99
ct	22. Develop underwriting summary models [CT, CC, DM]	9/30/99
ct	23. Develop rating agency presentation of Underwriting Methodology, Scopes of Work and Model Output/Reports [CT, CC]	9/30/99
dm	1. Set up phones, mail and email to route new deals to the appropriate Exchange Representative. [DM]	9/30/99
dm	11. Decide on software for storing entire third party reports online [DM, CC, NJ, FS, CT]	9/30/99
dm	37. Build separate underwriting distribution website with lower performance but high data capacity and security. [DM, CT, NJ]	9/30/99

Indicates that this a new item to the list.

Comments

To be developed w/Kahlil

To be developed w/Kahlil

Complete

This work is being done at the same as the cash flow section is being created by CT.

This work should be completed by 10/22/99. Currently a vendor is modifying its scope based on my comments.

This will be completed after the scopes of work are defined.

Completed: Still need to set up property specific hard copies for hello package

Draft completed. Needs to be reviewed by JH, FS, & our law firm.

Draft completed. Needs to be reviewed by JH, FS, & our law firm.

Completed.

Completed.

JH is working with our outside law firm to revise.

Confirmation require w/group- currently outlined as permanent fixed and floating rate 1st mortgages w/option for pref equity or mezz/2nds

fs	3. Develop Exchange Representative approach with script explaining program benefits. [FS, JH]	11/30/99
fs	5. Define loan registration and conflict checking process. [FS, DM] - Note Check to Database tables	Complete
fs	6. Outline Exchange Representative / Underwriter handoff protocol. [FS, CC]	10/30/99
fs	9. Create list of approved third parties organized by service, property type, location, etc. [CT, FS, JH] - Note: Target list only	9/15/99
fs	14. Develop fee and deposit collection mechanics [FS, JH]	Complete
fs	15. Develop accounting processes for Underwriting Deposits, CMEX out of pocket expenses and vendor expenses [FS, JH]	Complete
fs	16. Develop tracking procedures and software (i.e. customer database, assigning customers #, phone log, phone history, referrals, customer's issues, call-back/follow-up document tracking, etc.). [FS, DM, CC, CT]	11/30/99
fs	17. Develop Exchange Representative performance monitoring and improvement procedures. [FS]	12/30/99
fs	21. Develop procedures and organization for the underwriting process [FS, CT, CC, JH]	12/1/99
fs	35. Develop underwriting inquiry and response policies and procedures. [FS, CC, JH]	12/1/99
fs	50. Develop customer feedback form [FS, JH]	12/15/99
JH	Markup of Certificate [JH & CC]	10/30/99
JH	Development of Master Vendor Engagement & Short form Engagement Letters [JH & CC]	10/30/99
jh	13. Develop Underwriting Agreement. [JH, FS]	9/30/99
jh	34. Draft Loan Posting and Bidder Registration Agreements including: borrower information representation and release, due diligence costs and deposit rules, troubled markets policy and Bidder "set-up" package. [JH]	9/30/99
jh	41. Develop a Commitment Letter that can be automatically completed from winning bid. [JH, DM]	10/30/99
jh	42. Create system for Borrower to electronically (i.e. rapidly) sign Commitment letter. [DM, JH] Note: fax copy 1st generation	9/30/99
jh	44. Select and train pool of law firms to close loans and create law firm "set-up" package [JH]	11/30/99
jh	45. Create property type specific closing Checklists [FS, CT, CC, JH]	9/30/99
jh	46. Creation of closing documentation (i.e. loan documents, funding memo, escrow agreements, title instruction letter, settlement statement, etc.) [JH, FS, CC]	10/30/99
jh	47. Expand the Glossary and Database to include closing fields [FS, CT, CC]	9/30/99
jh	48. Document closing procedures (internal and external), including mechanics for various approvals, resolving issues/exceptions and delivering loan files [FS, CT, CC, JH]	10/30/99
jh	49. Design system to monitor receipt of recorded documents [JH]	10/30/99
sw	4. Develop daily lending market commentary with generic pricing grids. [SW, NJ]	10/15/99
sw	36. Research different auction techniques and their implications. Develop auction policies with clear rules and explanations. [SW, NJ, JH]	9/30/99

To be developed w/Kahlil

Conflict check data fields provided to Meeks and process written into process.

Waiting to test out on system when completed

Complete per process description - will be documented in Exchange Rep. Procedures as tested and modified

Waiting for completion of final scopes of work

This is a new item we determined was need.

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sw	38. Build separate auction website with real-time performance and security but minimal data storage. [DM, SW, NJ, JH]	9/30/99
sw	39. Define bid specification: spread, proceeds / DSCR limit, LTV limit, stipulations, confirmation period, {re-trading matrix}, etc. [SW, NJ]	9/15/99
sw	40. {Develop re-trading matrix methodology and utilization philosophy. [SW, NJ, CC, CT]}	11/30/99
sw	43. Determine how to incorporate rate-locks into process. [SW, NJ]	11/15/99

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